

CITY OF HARLAN

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2007

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CITY OF HARLAN OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Christiansen	Mayor	January, 2008
Dave Miller	Mayor pro tem	January, 2008
Rand Petersen	Council Member	January, 2008
Rhonda Brown	Council Member	January, 2008
Keith Kaufman	Council Member	January, 2010
Bill Reid	Council Member	January, 2008
Orv Roecker	Council Member	January, 2010
Dave Pedersen	Council Member	Resigned
Terry Cox	City Administrator	Appointed
Susan Lambert	City Clerk	Appointed
Marjorie Ahrenholtz	City Treasurer	Appointed
Joseph Lauterbach	City Attorney	Appointed

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 4, 2007

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

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Licensed In:

Iowa

Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Harlan's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Harlan Municipal Utilities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based on the report of the other auditors.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

September 4, 2007
To the Honorable Mayor and
Members of the City Council
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated September 4, 2007 on my consideration of the City of Harlan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 9, and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally in inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harlan's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which are prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Muflet Associates, CPA, P.C.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

As management of the City of Harlan, Iowa we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's financial statements include three components: 1) a cash basis government-wide financial statement, 2) cash basis fund financial statements, and 3) notes to the financial statements.

Government-wide financial statement: This statement consists of a Statement of Activities and Net Assets and provides information about the activities of the City as a whole and presents an overview of the City's finances.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has two kinds of funds.

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Tax, and Urban Renewal Tax Increment, 3) Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two sewer funds for current operations and future sewer projects. Also included with Enterprise Funds is the activity of Harlan Municipal Activities. All three are considered major funds of the City. The Internal Service Fund is used to accumulate resources and allocate costs of the City's self-funded health insurance plan.

A reconciliation between the government-wide statement and the fund financial statement follows the fund financial statements.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

ANALYSIS OF SIGNIFICANT CHANGES IN FINANCIAL POSITION AND NET ASSETS

Net assets may serve over time as a useful indicator of financial position. The cash basis of the net assets of the City's governmental activities decreased 38% from the prior fiscal year, decreasing by \$413,722. The following is the changes in the cash basis of the net assets of the City's governmental activities:

Changes in Net Assets of Governmental Activities			
Year ended June 30,			
	2007		2006
Receipts:			
Program receipts:			
Charges for services	\$ 1,500,754	\$	1,149,509
Operating grants, contributions and restricted interest	575,102		531,904
Capital grants, contributions and restricted interest	202,595		725,038
General receipts:			
Property tax	1,271,437		1,413,850
Tax increment financing	746,189		1,199,550
Debt service	242,413		292,276
Local option tax	324,646		250,150
Unrestricted investment earnings	59,423		42,348
Miscellaneous	-0-		19,168
Sale of assets	95,550		468
Transfers, net	(44,529)		(40,569)
Total receipts	4,973,580		5,583,692
Disbursements:			
Public safety	1,186,237		1,171,035
Public works	895,386		885,268
Community and economic development	361,077		377,533
Culture and recreation	720,360		737,547
General government	389,961		305,635
Debt service	488,448		512,095
Capital projects	544,516		989,072
Nonprogram	801,317		509,806
Total disbursements	5,387,302		5,487,991
Increase (decrease) in cash	(413,722)		95,701
Net assets, beginning of year	1,084,962		989,261
Net assets, end of year	\$ 671,240	\$	1,084,962

CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

The cash basis of the net assets of the City's business type activities increased by \$1,232,586 or 11.7% during the fiscal year ended June 30, 2007. The following is the changes in the cash basis of the net assets of the City's business type activities:

Changes in Net Assets of Business Type Activities			
Year ended June 30,			
	2007		2006
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$ 708,621	\$	699,132
HMU Component unit	15,093,671		11,453,257
Operating grants, contributions, and restricted interest	288,724		148,979
Capital grants, contributions, and restricted interest	-0-		-0-
General receipts:			
Unrestricted interest	67,782		10,800
Transfers, net	44,529		40,569
Total receipts	<u>16,203,327</u>		<u>12,352,737</u>
Disbursements:			
Sewer	629,132		579,093
HMU Component unit	<u>14,341,609</u>		<u>11,176,249</u>
Total disbursements	<u>14,970,741</u>		<u>11,755,342</u>
Increase (decrease) in cash	1,232,586		597,395
Net assets, beginning of year	<u>10,567,914</u>		<u>9,970,519</u>
Net assets, end of year	\$ <u>11,800,500</u>	\$	<u>10,567,914</u>

ANALYSIS BETWEEN ACTUAL AND BUDGET AMOUNTS

The City amended its budget on May 15, 2007. The amended budget increased revenue by over \$2.85 million and increased disbursements by over \$2.38 million, the majority of which increased governmental disbursements for the year ended June 30, 2007. Actual disbursements exceeded budgeted amounts in the community and economic development functions for the year ended June 30, 2007.

**CITY OF HARLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

DEBT ADMINISTRATION

<u>Outstanding Debt at Year-End</u>		
	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ <u>2,035,000</u>	\$ <u>2,435,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,035,000 is significantly below its constitutional debt limit of \$10.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. Amounts available for appropriation in the operating budget are \$20.3 million, a decrease of 4.5 million over the final 2007 budget. Budgeted disbursements are expected to decrease by \$1.6 million, a decrease of 7 percent under the final 2007 budget.

If these estimates are realized, the City's budgeted cash balances are expected to decrease by \$158,000 by the end of fiscal year 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have question about this report or need additional financial information, contact Susan Lambert, City Clerk, 711 Durant Street, Harlan, Iowa.

CITY OF HARLAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,186,237	\$ 44,817	\$ 74,581	\$ -0-
Public works	895,386	281,464	440,228	-0-
Community and economic dev	361,077	-0-	-0-	73,686
Culture and recreation	720,360	200,355	36,063	63,392
General government	389,961	312,617	22,008	-0-
Debt service	488,448	-0-	626	-0-
Capital projects	544,516	-0-	1,596	65,517
Nonprogram - contractual services	801,317	661,501	-0-	-0-
Total governmental activities	5,387,302	1,500,754	575,102	202,595
Business type activities:				
Sewer	629,132	708,621	-0-	-0-
HMU - Component unit	14,341,609	15,093,671	288,724	-0-
Total business type activities	14,970,741	15,802,292	288,724	-0-
Total	\$ 20,358,043	\$ 17,303,046	\$ 863,826	\$ 202,595
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Local Option Tax				
Unrestricted investment earnings				
Sale of assets				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

EXHIBIT A

	<u>Net (Disbursements), Receipts and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Functions / Programs:			
Governmental activities:			
Public safety	\$ (1,066,839)	\$ -0-	\$ (1,066,839)
Public works	(173,694)	-0-	(173,694)
Community and economic dev	(287,391)	-0-	(287,391)
Culture and recreation	(420,550)	-0-	(420,550)
General government	(55,336)	-0-	(55,336)
Debt service	(487,822)	-0-	(487,822)
Capital projects	(477,403)	-0-	(477,403)
Nonprogram - contractual services	(139,816)	-0-	(139,816)
Total governmental activities	(3,108,851)	-0-	(3,108,851)
Business type activities:			
Sewer	-0-	79,489	79,489
HMU - Component unit	-0-	1,040,786	1,040,786
Total business type activities	-0-	1,120,275	1,120,275
Total	(3,108,851)	1,120,275	(1,988,576)
	1,271,437	-0-	1,271,437
	746,189	-0-	746,189
	242,413	-0-	242,413
	324,646	-0-	324,646
	59,423	67,782	127,205
	95,550	-0-	95,550
	(44,529)	44,529	-0-
	2,695,129	112,311	2,807,440
	(413,722)	1,232,586	818,864
	1,084,962	10,567,914	11,652,876
\$	<u>671,240</u>	\$ <u>11,800,500</u>	\$ <u>12,471,740</u>
\$	55,785	\$ -0-	\$ 55,785
	2,888	-0-	2,888
	612,567	11,800,500	12,413,067
\$	<u>671,240</u>	\$ <u>11,800,500</u>	\$ <u>12,471,740</u>

CITY OF HARLAN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	General	Special Revenue	
		Urban Renewal	Road Use
Receipts:			
Property tax	\$ 1,046,995	\$ -0-	\$ -0-
Tax increment financing	-0-	746,189	-0-
Other city tax	21,820	-0-	-0-
Licenses and permits	62,066	-0-	-0-
Use of money and property	110,543	-0-	-0-
Intergovernmental	347,182	-0-	440,228
Charges for services	409,607	-0-	-0-
Special assessments	-0-	-0-	-0-
Miscellaneous	56,433	-0-	-0-
Total receipts	2,054,646	746,189	440,228
Disbursements:			
Operating:			
Public safety	788,115	-0-	-0-
Public works	467,968	-0-	389,412
Culture and recreation	687,531	-0-	-0-
Community and economic development	-0-	1,416	-0-
General government	372,927	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	2,316,541	1,416	389,412
Excess (deficiency) of receipts over (under) disbursements	(261,895)	744,773	50,816
Other financing sources (uses):			
Sale of capital assets	16,950	-0-	-0-
Operating transfers in	381,709	37,500	-0-
Operating transfers out	(72,064)	(752,192)	(2,000)
Total other financing sources (uses)	326,595	(714,692)	(2,000)
Net change in cash balances	64,700	30,081	48,816
Cash balances, beginning of year	338,912	(30,081)	6,969
Cash balances, end of year	\$ 403,612	\$ -0-	\$ 55,785
Cash Basis Fund Balances			
Reserved for debt service	\$ -0-	\$ -0-	\$ -0-
Unreserved:			
General fund	403,612	-0-	-0-
Special revenue funds	-0-	-0-	55,785
Capital projects funds	-0-	-0-	-0-
Total cash basis fund balances	\$ 403,612	\$ -0-	\$ 55,785

See notes to financial statements.

EXHIBIT B

Industrial Park	Debt Service	Other Nonmajor	Total
\$ -0-	\$ 241,618	\$ 201,821	\$ 1,490,434
-0-	-0-	-0-	746,189
-0-	795	325,447	348,062
-0-	-0-	-0-	62,066
2,355	626	3,131	116,655
-0-	-0-	65,596	853,006
-0-	-0-	2,899	412,506
-0-	-0-	14,435	14,435
-0-	-0-	148,463	204,896
2,355	243,039	761,792	4,248,249
-0-	-0-	398,122	1,186,237
-0-	-0-	38,006	895,386
-0-	-0-	32,829	720,360
280,455	-0-	79,206	361,077
-0-	-0-	17,034	389,961
-0-	488,448	-0-	488,448
-0-	-0-	544,516	544,516
280,455	488,448	1,109,713	4,585,985
(278,100)	(245,409)	(347,921)	(337,736)
75,250	-0-	3,350	95,550
329,077	245,531	473,296	1,467,113
-0-	-0-	(685,386)	(1,511,642)
404,327	245,531	(208,740)	51,021
126,227	122	(556,661)	(286,715)
1,294	2,766	282,058	601,918
\$ 127,521	\$ 2,888	\$ (274,603)	\$ 315,203
\$ -0-	\$ 2,888	\$ -0-	\$ 2,888
-0-	-0-	-0-	403,612
127,521	-0-	(99,843)	83,463
-0-	-0-	(174,760)	(174,760)
\$ 127,521	\$ 2,888	\$ (274,603)	\$ 315,203

CITY OF HARLAN

**RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

Total governmental funds cash balances (page 13)	\$	315,203
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The Internal Service Fund is included in governmental activities in the Statement of Activities and Net Assets

356,037

Cash basis net assets of governmental activities (page 11)	\$	<u>671,240</u>
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Net change in cash balances (page 13)	\$	(286,715)
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities.

(127,007)

Change in cash balance of governmental activities (page 11)	\$	<u>(413,722)</u>
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See notes to financial statements.

CITY OF HARLAN

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES –
PROPRIETARY FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds			
	Sewer	Sewer Equipment Replacement	HMU Component Unit	Total
Operating receipts:				
Use of money and property	\$ 3,129	\$ -0-	\$ -0-	\$ 3,129
Charges for services	705,492	-0-	15,093,671	15,799,163
Miscellaneous	-0-	-0-	-0-	-0-
Total operating receipts	708,621	-0-	15,093,671	15,802,292
Operating disbursements:				
Business type activities	528,968	100,164	14,341,609	14,970,741
	528,968	100,164	14,341,609	14,970,741
Excess (deficiency) of operating receipts over (under) operating disbursements	179,653	(100,164)	752,062	831,551
Non-operating receipts (disbursements):				
Interest on investments	-0-	67,782	288,724	356,506
Reimbursements	-0-	-0-	-0-	-0-
Contractual services	-0-	-0-	-0-	-0-
Transfer in	-0-	314,895	-0-	314,895
Transfer out	(210,000)	(60,366)	-0-	(270,366)
Net non-operating receipts (disbursements)	(210,000)	322,311	288,724	401,035
Net change in cash balances	(30,347)	222,147	1,040,786	1,232,586
Cash balances, beginning of year	20,637	1,933,790	8,613,487	10,567,914
Cash balances, end of year	\$ (9,710)	\$ 2,155,937	\$ 9,654,273	\$ 11,800,500
Cash Basis Fund Balances				
Unreserved				
Total cash basis fund balances	\$ (9,710)	\$ 2,155,937	\$ 9,654,273	\$ 11,800,500

See notes to financial statements.

	Internal Service
	Group
	Insurance
	Trust
Operating receipts:	
Use of money and property	\$ -0-
Charges for services	-0-
Miscellaneous	-0-
Total receipts	-0-
Operating disbursements:	
Public safety	-0-
Public works	-0-
Culture and recreation	-0-
General government	-0-
Business type activities	-0-
Total disbursements	-0-
Operating income (loss)	-0-
Non-operating receipts (disbursements):	
Interest on investments	12,807
Reimbursements	661,501
Contractual services	(801,317)
Transfer in	-0-
Transfer out	-0-
Net non-operating receipts (disbursements)	(127,007)
Excess (deficiency) of receipts over (under) disbursements	(127,007)
Cash balances, beginning of year	483,044
Cash balances, end of year	\$ 356,037
Cash Basis Fund Balances	
Unreserved:	
Total fund balance	\$ 356,037

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The City of Harlan is a political subdivision of the State of Iowa located in Shelby County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes the City of Harlan has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City. The City has one component unit, which meets the Government Accounting Standards Board criteria.

These financial statements present the City of Harlan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discrete Component Unit - The Harlan Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission and The Shelby County Solid Waste Agency Board.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies (Cont'd)

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Fund is used to account for tax increment financing funds. The Road Use Tax Fund is used to account for street construction and maintenance. The Industrial Park Fund is used to account in part for community and economic development funds, mostly tax increment financing funds transferred in. The Equipment Revolving Fund is also presented as a Special Revenue Fund.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies (Cont'd)

Basis of Presentation (Cont'd)

The Debt Service accounts for the principal and interest payments on long-term debt of the City.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sewer Equipment Replacement Fund aggregates funds for future sewer projects.

The City also reports the following additional proprietary fund:

Internal Service Fund is used to accumulate resources and allocate costs of the City's self-funded health insurance plan.

The City reports former expendable trust funds (pre GASB-34) as other special revenue funds as they do not readily fall into GASB-34 Fiduciary fund categories of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds or permanent (formerly non-expendable) trust funds.

C. Measurement Focus and Basis of Accounting

The City of Harlan maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, account payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2007, disbursements exceed amounts budgeted in the community and economic development functions.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2005, to compute the amounts, which became liens on property on July 1, 2006. These taxes were due and payable in two installments on September 30, 2006 and March 31, 2007, at the Shelby County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Deposits

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

For the year ended June 30, 2007, \$2,817,064 was on deposit at local banks as demand deposits and certificates of deposit.

(2) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$91,345, \$88,458, and \$89,059, respectively, equal to the required contributions for each year.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2008	\$ 400,000	\$ 75,823
2009	295,000	63,253
2010	290,000	53,205
2011	295,000	42,705
2012	320,000	31,465
2013	325,000	18,905
2014	110,000	5,610
	<u>\$ 2,035,000</u>	<u>\$ 290,966</u>

The City has a general obligation debt limit of approximately \$10.6 million which was not exceeded during the year ended June 30, 2007.

The resolutions providing for the issuance of the general obligation debt include the following provisions:

- (a) The levy of taxes sufficient to provide payment of principal and interest when due.
- (b) Proceeds of the tax levy are to be collected in the debt service fund or a special Revenue fund of the City, as it is applicable.

The City is in compliance with debt resolutions.

(4) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and floating holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 49,204
Compensatory time	51,646
Floating holiday	8,307
	<u>\$ 109,157</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(5) Self - Insurance Program

The City has established a self-insurance medical program, which is accounted for in the Group Insurance Fund (an internal service fund). This program provides employee health benefit coverage up to maximum of \$40,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. The City pays all claims and is reimbursed from the re-insurer for excess claims. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participated in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The unpaid claims liability of \$53,772 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the Fund's claims liability amount are as follows:

Unpaid claims, beginning of year	\$ 47,532
Incurred claims	600,157
Payments	(593,917)
Unpaid claims, end of year	\$ <u>53,772</u>

(6) Deficit Fund Balances

As of June 30, 2007, the following funds had deficit balances:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Housing Rehab	\$ 39
Equipment Revolving	123,601
Capital Projects:	
Harlan Plaza	808
Airport Improvement	47,545
Dye Street	283,910
Enterprise:	
Sewer	9,710
Total	\$ <u>465,613</u>

The deficit balances were a result of project costs incurred prior to availability of funds. Material deficits will be eliminated by the issuance of bonds subsequent to year-end and upon completion of the projects.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(8) Risk Management

The City of Harlan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Urban Renewal

Harlan Urban Renewal Area

The original Harlan Urban Renewal Plan was dated April 1989 and was amended in June 1992, October 1993, March 2000, February 2002, March 2005 and November 2006. Areas of the city within the urban renewal area include the Downtown Business District, the C. G. Therkildsen Center, the Wastewater Treatment and the Industrial Park areas.

Laurel Street Urban Renewal Area

The Laurel Street Urban Renewal Area is a stand alone urban renewal plan adopted in March 2005 for the promotion of new residential development at the former Laurel School site.

(10) Tax Increment Financing

For the year ended June 30, 2007, the City collected \$746,189 in tax increment financing (TIF) funds. The TIF receipts are recorded in the urban renewal fund then expended and transferred as follows:

	<u>2007</u>	<u>2006</u>
Cash balance, beginning of year	\$ (30,081)	\$ -0-
Tax Increment Financing receipts	746,189	1,199,550
General Fund payback	37,500	-0-
TIF Funds available	<u>753,608</u>	<u>1,199,550</u>
Legal fees	1,416	1,704
Transferred to:		
Debt Service Fund	245,531	215,749
Street Overlay	62,690	78,236
General Fund	-0-	129,475
Sewer Equipment Replacement Fund	114,894	418,787
Industrial Park Fund	329,077	385,680
Total transfers	<u>753,608</u>	<u>1,229,631</u>
Cash balance, end of year	\$ <u>-0-</u>	\$ <u>(30,081)</u>

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(10) Tax Increment Financing (Continued)

In 2001, the City entered into 28E Agreements with Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively. For the year ended June 30, 2007, the City remitted \$140,748 to the school district from the Industrial Park Fund.

During the fiscal year ended June 30, 2005, the State Auditor's Office questioned the 28E Agreements with the county and the school district on the grounds that the TIF funds may not be expended by the county and the school district except in urban renewal areas of the City. The State Auditor's Office also questioned the City's compliance with Chapter 403 of the Code of Iowa (Urban Renewal and Tax Increment Financing) and recommended the City consult with legal counsel to ensure compliance with provisions of Chapter 403 and the City's Urban Renewal Plan.

In November 2005, as a result of the State Auditor's inquiry and recommendation by legal counsel, the City Council voted to terminate participation in the 28E Agreements with both Shelby County and the Harlan Community School District effective July 1, 2006. In addition, the City's General Fund will pay back the TIF funds it transferred to the General Fund for fiscal years 2004, 2005 and 2006. The payback will be appropriated for fiscal years 2007 through 2014 at which time the TIF program will sunset. For the year ended June 30, 2007, The General fund reimbursed the Urban Renewal Fund \$37,500.

Transfers of TIF funds to the sewer equipment replacement fund represent repayment of funds expended in prior years for numerous projects and renovations in urban renewal areas from the sewer equipment replacement fund. The payment schedule is beyond the scope of this footnote but is on file at the city clerk's office for inspection. For the year ended June 30, 2007, the Urban Renewal Fund transferred \$114,894 to the Sewer Equipment Replacement Fund.

(11) Related Party Transactions

Business transactions between the City and City officials totaled \$2,515 for the year ended June 30, 2007.

(12) Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the community and economic development functions exceeded the amounts budgeted.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(13) Grants

Shelby County Endowment Fund

On November 20, 2006, the Harlan Police Department was awarded a \$1,500 grant for its taser program from the Shelby County Endowment Fund. The grant expired December 1, 2006. For the year ended June 30, 2007, the Harlan Police Department received \$1,500.

On November 20, 2006, the Harlan Fire Department was awarded a \$1,500 grant for its Shelby County Water Rescue program from the Shelby County Endowment Fund. The grant expired December 1, 2006. For the year ended June 30, 2007, the Harlan Fire Department received \$1,500.

Iowa Governor's Traffic Safety Bureau

For the year ended June 30, 2007, the Harlan Police Department was awarded \$4,056 in STEP grants for its Special Traffic Enforcement Program (STEP) from the Iowa Governor's Traffic Safety Bureau.

General Aviation Vertical Infrastructure Grant

On July 11, 2006, the Harlan Municipal Airport was awarded a General Aviation Vertical Infrastructure (GAVI) grant from the Iowa Transportation Commission. The \$68,000 grant requires a 15%, or a \$12,000, local match. The approved project rehabilitates doors and floors of seven hangars. As of June 30, 2007, no grant funds have been received.

Community Development Block Grant

On March 29, 2006, the City of Harlan was awarded a \$305,000 Community Development Block Grant from the Iowa Department of Economic Development for the rehabilitation of low to moderate income family housing. The grant expires March 31, 2008. As of June 30, 2007, grant funds of \$73,586 had been received.

Iowa West Foundation

In January 2007, the City of Harlan was awarded a \$200,000 grant from the Iowa West Foundation for development of College Park Plaza. As of June 30, 2007, no grant funds had been received.

On July 11, 2007, the City of Harlan was awarded a \$25,000 grant from the Iowa West Foundation for the construction of the Rocky Skate Park. The 50/50 matching grant expires June 30, 2008.

Tony Hawk Foundation

On March 6, 2007, the City of Harlan was awarded a \$5,000 grant from the Tony Hawk Foundation for the development of the Rocky Skate Park. For the year ended June 30, 2007, \$5,000 was received.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(14) Commitments

Harlan Country Club Estates

In September 1999, the City entered into an agreement with Harlan Country Club Estates, Inc. for the construction of road infrastructure in a residential development area. Under the terms of the agreement, the City agrees to pay \$15,100 per housing unit. There are 25 units and the City remains obligated for 10 infrastructure payments. For the year ended June 30, 2007, the City paid \$0, pursuant to the agreement.

Ambulance Commission of Shelby County

On March 7, 2005, the City entered into a joint voluntary undertaking with Myrtue Memorial Hospital for the formation of the Ambulance Commission of Shelby County, as authorized by Chapter 28E of the 2005 Code of Iowa. The commencement date of the joint undertaking was July 1, 2006. The city administrator and an individual appointed by the mayor and approved by city council serve on the five-member board of directors. The Ambulance Commission was established to provide ambulance services to the citizens of Harlan and Shelby County, Iowa. The agreement commits the City of Harlan to contribute 33-1/3% of the total cost of providing ambulance service to Shelby County. For the year ended June 30, 2007, the City contributed \$28,500.

E911 Communications Center Services

On August 7, 2001, the City contracted with Shelby County to provide E911 communications services through the Shelby County Emergency Management Commission for Harlan beginning July 1, 2001 and ending June 30, 2006. The communications services provided to Harlan during this period included dispatching, answering phones for the Harlan Police Department on night and weekends, MCIC access, city alarm monitoring and radio log maintenance and reports. After June 30, 2006, the parties will continue this contract on a year to year basis. For the year ended June 30, 2007, the City contributed \$51,883 to Shelby County for E911 services.

Agreement for GIS Services

In July 2003, the City of Harlan, Harlan Municipal Utilities and Shelby County entered into an agreement for the exchange and distribution of Geographic Information System (GIS) data. Shelby County developed a digital graphic and tabular database depicting land and cadastral data. This agreement is effective until July 1, 2008 and stipulates an annual fee of \$15,000. For the year ended June 30, 2007, the City contributed \$15,000 to Shelby County for GIS services.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(14) Commitments (Continued)

TIF Agreements

On May 1, 2001, the City entered into 28E agreements with both Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively. On November 15, 2005, the city council terminated the 28E agreements with both Shelby County and Harlan Community School District effective July 1, 2006. For the year ended June 30, 2007, the City contributed \$140,748 to the Harlan Community School District for resurfacing and other modifications to Merrill Field.

Performance Agreement - CiDirect, Inc.

On December 1, 2006, the City entered into a refundable conditional grant agreement with CiDirect, Inc. for the formation and maintenance of at least eighty-six new full-time jobs for five years. The refundable conditional grant amount is \$129,000 and obligates CiDirect, Inc. to refund the grant or portion of the grant with interest in the event of default. For the year ended June 30, 2007, the City awarded \$100,000 to CiDirect, Inc.

Dye Street Development Project

In May 2007, the City began infrastructure development on a forty-acre tract of land in north Harlan. The \$2.5 million project will provide 81 single and multi-family housing lots. The grading, street development and installation of gas, water, electric, phone, fiber optics and sewer lines are expected to be completed by November, 2007. For the year ended June 30, 2007, the City expended \$283,910 for the development project.

(15) Subsequent Event

On July 10, 2007, the City issued \$3.815 million general obligation bonds to finance City projects as follows:

Housing development	\$	2,100,000
Street overlay and millings		200,000
Fire Hall		400,000
College Park Plaza		500,000
Fire Truck		332,000
Emergency warning sirens		90,000
Issuance costs		<u>193,000</u>
Total	\$	<u>3,815,000</u>

The twenty year bonds mature in 2027, bear interest at 4.35% and will be subject to call after June 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 1,490,434	\$ -0-
Tax increment financing	746,189	-0-
Other city tax	348,062	-0-
Licenses and permits	62,066	-0-
Use of money and property	129,463	356,506
Intergovernmental	853,006	-0-
Charges for services	412,506	15,802,292
Special assessments	14,435	-0-
Miscellaneous	866,397	-0-
Total receipts	<u>4,922,558</u>	<u>16,158,798</u>
Disbursements:		
Public safety	1,186,237	-0-
Public works	895,386	-0-
Culture and recreation	720,360	-0-
Community and economic development	361,077	-0-
General government	389,961	-0-
Debt service	488,448	-0-
Capital projects	544,516	-0-
Business type	-0-	14,970,741
Nonprogram	801,317	-0-
Total disbursements	<u>5,387,302</u>	<u>14,970,741</u>
Excess (deficiency) of receipts over (under) disbursements	(464,744)	1,188,057
Other financing sources, net	<u>51,022</u>	<u>44,529</u>
Excess (deficiency) of receipts and other financing sources	(413,722)	1,232,586
Balance beginning of year	<u>1,084,962</u>	<u>10,567,914</u>
Balance end of year	\$ <u>671,240</u>	\$ <u>11,800,500</u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 1,490,434	\$ 1,453,376	\$ 1,453,376	\$ 37,058
746,189	740,922	740,922	5,267
348,062	341,191	341,191	6,871
62,066	23,950	23,950	38,116
485,969	195,800	225,800	260,169
853,006	768,606	818,606	34,400
16,214,798	13,554,420	13,413,711	2,801,087
14,435	3,225	3,225	11,210
866,397	163,550	163,550	702,847
<u>21,081,356</u>	<u>17,245,040</u>	<u>17,184,331</u>	<u>3,897,025</u>
1,186,237	813,650	1,243,450	57,213
895,386	886,050	958,851	63,465
720,360	709,714	759,814	39,454
361,077	-0-	330,000	(31,077)
389,961	331,390	400,163	10,202
488,448	488,448	488,448	-0-
544,516	222,247	648,516	104,000
14,970,741	14,429,254	15,395,486	424,745
801,317	-0-	-0-	(801,317)
<u>20,358,043</u>	<u>17,880,753</u>	<u>20,224,728</u>	<u>(133,315)</u>
723,313	(635,713)	(3,040,397)	3,763,710
<u>95,551</u>	<u>2,850,000</u>	<u>5,722,522</u>	<u>(5,626,971)</u>
818,864	2,214,287	2,682,125	(1,863,261)
<u>11,652,876</u>	<u>11,652,876</u>	<u>11,652,876</u>	<u>-0-</u>
\$ <u>12,471,740</u>	\$ <u>13,867,163</u>	\$ <u>14,335,001</u>	\$ <u>(1,863,261)</u>

CITY OF HARLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$2,343,975. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceed the amounts budgeted in the community and economic development functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	Special Revenue					Capital Projects		
	Local Option Tax	Employee Benefits	Equipment Revolving	Housing Rehab	Library Trust	Other Spec Rev Funds	Sewer Rehab	Activity Center
Receipts:								
Property tax	\$ -0-	\$ 201,821	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other City tax	324,646	801	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	-0-	-0-	-0-	-0-	71	261	-0-	-0-
Intergovernmental	-0-	-0-	6,693	54,044	4,859	-0-	-0-	-0-
Charges for services	-0-	-0-	2,178	-0-	-0-	721	-0-	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	18,757	-0-	5,793	2,000	-0-	-0-
Total receipts	324,646	202,622	27,628	54,044	10,723	2,982	-0-	64,314
Disbursements:								
Operating:								
Public safety	-0-	-0-	396,793	-0-	-0-	1,329	-0-	-0-
Public works	23,247	-0-	14,759	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	17,190	-0-	12,094	3,545	-0-	-0-
Comm and econ development	-0-	-0-	-0-	79,206	-0-	-0-	-0-	-0-
General government	-0-	-0-	17,034	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	29,805	4,231
Total disbursements	23,247	-0-	445,776	79,206	12,094	4,874	29,805	4,231
Excess (deficiency) of receipts over (under) disbursements	301,399	202,622	(418,148)	(25,162)	(1,371)	(1,892)	(29,805)	60,083

See accompanying independent auditor's report.

Capital Projects							
	Street Overlay	Swim Pool	Library Building	Dye Street	Airport Improve	Skate Park	Other Projects
Receipts: (Continued)							Total
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 201,821
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	325,447
Use of money and property	-0-	475	-0-	-0-	-0-	1,692	3,131
Intergovernmental	-0-	-0-	-0-	-0-	-0-	-0-	65,596
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	2,899
Special assessments	8,346	-0-	-0-	-0-	-0-	-0-	14,435
Miscellaneous	-0-	-0-	-0-	-0-	-0-	57,599	148,463
Total receipts	8,346	475	-0-	-0-	-0-	59,291	761,792
Disbursements:							
Operating:							
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	398,122
Public works	-0-	-0-	-0-	-0-	-0-	-0-	38,006
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	32,829
Comm and econ development	-0-	-0-	-0-	-0-	-0-	-0-	79,206
General government	-0-	-0-	-0-	-0-	-0-	-0-	17,034
Capital projects	174,640	-0-	-0-	283,910	50,018	-0-	544,516
Total disbursements	174,640	-0-	-0-	283,910	50,018	-0-	1,109,713
Excess (deficiency) of receipts over (under) disbursements	(166,294)	475	-0-	(283,910)	(50,018)	59,291	(347,921)

	Special Revenue					Capital Projects		
	Local Option Tax	Employee Benefits	Equipment Revolving	Housing Rehab	Library Trust	Other Spec Rev Funds	Sewer Rehab	Activity Center
Excess (deficiency) of receipts over (under) disbursements	301,399	202,622	(418,148)	(25,162)	(1,371)	(1,892)	(29,805)	60,083
Other financing sources (uses):								
Sale of assets	-0-	-0-	3,350	-0-	-0-	-0-	-0-	-0-
Transfers in	-0-	168,587	104,064	250	-0-	-0-	60,366	-0-
Transfers out	(313,927)	(371,209)	-0-	-0-	-0-	-0-	-0-	-0-
	(313,927)	(202,622)	107,414	250	-0-	-0-	60,366	-0-
Net change in cash balances	(12,528)	-0-	(310,734)	(24,912)	(1,371)	(1,892)	30,561	60,083
Cash balances beginning of year	12,528	-0-	187,133	24,873	8,795	18,265	(30,561)	(46,196)
Cash balances end of year	\$ -0-	\$ -0-	\$ (123,601)	\$ (39)	\$ 7,424	\$ 16,373	\$ -0-	\$ 13,887
Cash Basis Fund Balances								
Unreserved:								
Special revenue funds	\$ -0-	\$ -0-	\$ (123,601)	\$ (39)	\$ 7,424	\$ 16,373	\$ -0-	\$ -0-
Capital projects funds	-0-	-0-	-0-	-0-	-0-	-0-	-0-	13,887
Total cash basis fund balances	\$ -0-	\$ -0-	\$ (123,601)	\$ (39)	\$ 7,424	\$ 16,373	\$ -0-	\$ 13,887

See accompanying independent auditor's report.

	Capital Projects						
	Street Overlay	Swim Pool	Library Building	Dye Street	Airport Improve	Skate Park	Other Projects
(Continued)							Total
Excess (deficiency) of receipts over (under) disbursements	(166,294)	475	-0-	(283,910)	(50,018)	59,291	4,809
Other financing sources (uses):							
Sale of assets	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Transfers in	140,029	-0-	-0-	-0-	-0-	-0-	-0-
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-	-0-
	140,029	-0-	-0-	-0-	-0-	-0-	-0-
Net change in cash balances	(26,265)	475	-0-	(283,910)	(50,018)	59,291	4,559
Cash balances beginning of year	31,020	23,143	57	-0-	2,473	17,685	32,843
Cash balances end of year	\$ 4,755	\$ 23,618	\$ 57	\$ (283,910)	\$ (47,545)	\$ 76,976	\$ 37,402
							\$ (274,603)
Cash Basis Fund Balances							
Unreserved:							
Special revenue funds	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Capital projects funds	4,755	23,618	57	(283,910)	(47,545)	76,976	37,402
Total cash basis fund balances	\$ 4,755	\$ 23,618	\$ 57	\$ (283,910)	\$ (47,545)	\$ 76,976	\$ 37,402
							\$ (274,603)

CITY OF HARLAN

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES - OTHER SPECIAL REVENUE FUNDS

YEAR ENDED JUNE 30, 2007

	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Receipts:						
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	-0-
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-
Use of money and property	142	-0-	119	-0-	-0-	261
Intergovernmental	-0-	-0-	-0-	-0-	-0-	-0-
Charges for services	-0-	721	-0-	-0-	-0-	721
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	2,000	-0-	-0-	-0-	-0-	2,000
Total receipts	2,142	721	119	-0-	-0-	2,982
Disbursements:						
Operating:						
Public safety	-0-	705	-0-	-0-	624	1,329
Public works	-0-	-0-	-0-	-0-	-0-	-0-
Culture and recreation	3,130	-0-	415	-0-	-0-	3,545
General government	-0-	-0-	-0-	-0-	-0-	-0-
Debt Service	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	3,130	705	415	-0-	624	4,874

	Beebe Trust	Police Trust	Play Ground	Hansen Trust	Allen Trust	Total
Excess (deficiency) of receipts Over (under) disbursements	(988)	16	(296)	-0-	(624)	(1,892)
Other financing sources (uses):						
Transfers in	-0-	-0-	-0-	-0-	-0-	-0-
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-
Net change in cash balances	(988)	16	(296)	-0-	(624)	(1,892)
Cash balances beginning of year	7,111	1,145	5,500	3,202	1,307	18,265
Cash balances end of year	\$ 6,123	\$ 1,161	\$ 5,204	\$ 3,202	\$ 683	\$ 16,373
Cash Basis Fund Balances						
Special revenue funds	6,123	1,161	5,204	3,202	683	16,373
Total cash basis fund balances	\$ 6,123	\$ 1,161	\$ 5,204	\$ 3,202	\$ 683	\$ 16,373

See accompanying independent auditor's report

CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due
General Obligation Bonds:									
Refinancing Capital Note	Jan. 1, 2004	1.50 - 3.6%	\$ 1,770,000	\$ 1,455,000	-0-	215,000	\$ 1,240,000	\$ 42,908	\$ 3,182
Fire Truck	Dec. 16, 2002	1.85 - 3.0%	355,000	200,000	-0-	100,000	100,000	5,700	250
Combined Issue	Jul. 20, 1999	4.10 - 5.1%	1,355,000	780,000	-0-	85,000	695,000	38,640	2,887
			\$ 2,435,000	\$ 2,435,000	\$ -0-	\$ 400,000	\$ 2,035,000	\$ 87,248	\$ 6,319

See Accompanying Independent Auditor's Report

SCHEDULE 4

**CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2007**

General Obligation Bonds

Year Ending June 30,	Refinancing Capital Loan Note Issued Jan. 1, 2004		Fire Truck Issued Dec. 16, 2002		Combined Issue Issued July 1, 1999	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	2.50%	\$ 210,000	3.00%	\$ 100,000	4.70%	\$ 90,000
2009	2.75%	205,000	-0-	-0-	4.80%	90,000
2010	3.00%	200,000	-0-	-0-	4.90%	90,000
2011	3.20%	195,000	-0-	-0-	5.00%	100,000
2012	3.40%	215,000	-0-	-0-	5.00%	105,000
2013	3.60%	215,000	-0-	-0-	5.05%	110,000
2014	-0-	-0-	-0-	-0-	5.10%	110,000
		<u>\$ 1,240,000</u>		<u>\$ 100,000</u>		<u>\$ 695,000</u>
						<u>\$ 2,035,000</u>

See Accompanying Independent Auditor's Report

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:				
Property tax	\$ 1,490,434	\$ 1,369,632	\$ 1,404,035	\$ 1,461,570
Tax increment financing collections	746,189	1,199,550	1,091,014	980,614
Other city tax	348,062	294,368	22,641	16,371
Licenses and permits	62,066	65,371	60,021	54,195
Use of money and property	116,655	106,389	88,450	78,525
Intergovernmental	853,006	1,381,898	965,230	1,667,288
Charges for service	412,506	402,974	351,277	371,945
Special assessments	14,435	977	4,186	7,535
Miscellaneous	204,896	156,695	284,384	497,532
Total	\$ <u>4,248,249</u>	\$ <u>4,977,854</u>	\$ <u>4,271,238</u>	\$ <u>5,135,575</u>
Disbursements:				
Operating:				
Public safety	\$ 1,186,237	\$ 1,084,826	\$ 733,141	\$ 688,146
Public works	895,386	756,129	818,117	832,249
Culture and recreation	720,360	727,450	677,455	573,477
Community and economic dev	361,077	377,533	-0-	570,820
General government	389,961	294,416	861,968	395,676
Debt service	488,448	512,095	494,018	499,108
Capital projects	544,516	989,072	1,612,417	1,874,477
Total	\$ <u>4,585,985</u>	\$ <u>4,741,521</u>	\$ <u>5,197,116</u>	\$ <u>5,433,953</u>

See Accompanying Independent Auditor's Report

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 4, 2007

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 4, 2007. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Harlan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Harlan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

Continued . . .

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Iowa Society of CPA's and AICPA Private Companies Practice Section

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Harlan's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Harlan's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Harlan's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items II-A-07, II-B-07 and II-C-07 are material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

September 4, 2007
To the Honorable Mayor and
Members of the City Council
Page Three

The City of Harlan's responses to findings identified in my audit are described in the accompanying Schedule of findings and Questioned Costs. While I have expressed my conclusions on the City's responses, I did not audit the City of Harlan's responses and accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Harlan during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Musfeldt Associates, CPA, P.C.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- II-A-07 Budgetary and function reports – While the City monitors the budget regularly, it would be more efficient to monitor the budget by function.

Recommendation - A budget vs. actual expense report by function would simplify and make monitoring the budget more efficient.

Response - An actual vs. budget expense report by function will be prepared and utilized in future.

Conclusion - Response accepted.

- II-B-07 Payroll accounts materially misstated - It was noted that both payroll and non-payroll transactions are posted to the payroll accounts and resulted in a material overstatement of payroll in the general ledger.

Recommendation - Fire stipends and insurance costs should be assigned their own accounts and used instead of payroll accounts in the future.

Response - These accounts will be established and utilized in future.

Conclusion - Response accepted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Part II: Findings Related to the Financial Statements: (Continued)

II-C-07 No Substantiation of Amounts Claimed - The TIF Certification of Indebtedness was not supported by adequate documentation.

Recommendation - Amounts of TIF indebtedness should be supported by information such as check, date, payee, amount, fund and account distribution if based on actual expenditures or resolution number if based on an estimate.

Response - This is a simple procedure to implement and will be followed in the future.

Conclusion - Response accepted.

II-D-07 CDBG Grant Funds misposted to general fund - A misposting of CDBG funds resulted in a deficit balance in the Housing Rehab Fund and indicates a lack of review procedures to identify and correct misposting.

Recommendation - The work of subordinates should be reviewed especially if performing tasks not normally performed.

Response - We will perform reviews as directed.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part III: Other Findings Related to Statutory Reporting:

IV-A-06 Certified Budget - For the year ended June 30, 2007, disbursements in the community and economic functions exceeded the amounts budgeted.

Recommendation - The budget should have been amended in sufficient amounts at the function level in accordance with Chapter 384.18 of the Code of Iowa. Total City disbursements did not exceed total budgeted amounts.

Response - The budget will be amended accordingly in the future.

Conclusion - Response accepted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Part III: Other Findings Related to Statutory Reporting: (Continued)

IV-B-06 Questionable Disbursements - I did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1970. However, I did note instances in which documentation was not available to substantiate training, travel, and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel, and conference reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

IV-C-06 Travel Expense

No disbursements of city money for travel expense of spouses of city officials or employees were noted.

IV-D-06 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business connection	Transaction Description	Amount
Jay Christensen, P & Z Board, Owner Dr. Jay's Eyecare	Employee benefits	\$ <u>2,515</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Planning and Zoning Board Member does not appear to represent a conflict of interest since employee benefits include eye examinations and glasses.

IV-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure adequate coverage for current operations.

IV-F-06 Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Other Findings Related to Statutory Reporting: (Continued)

IV-G-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-06 Revenue Notes

The City has no revenue debt at June 30, 2007.

IV-I-06 Payment of General Obligation Bonds

General Obligation Bonds were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

IV-J-06 Financial Condition - The following Funds had deficit balances as of June 30, 2007:

<u>Fund</u>		<u>Deficit</u>
Special Revenue - Housing Rehab	\$	39
Special Revenue - Equipment Revolving		123,601
Capital Projects - Harlan Plaza		808
Capital Projects - Airport Improvement		47,545
Capital Projects - Dye Street		283,910
Enterprise - Sewer		9,710
Total	\$	<u>465,613</u>

Recommendation - The City should monitor these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon the issuance of bonds and completion of the projects.

Conclusion - Response accepted.

III-K-07 Two Required Signatures - Two signatures are required on checks over \$5,000. Two checks were issued without the required signatures.

Recommendation - The deputy clerk should get the required second signature.

Response - Signatures will be obtained in future.

Conclusion - Response accepted.

CITY OF HARLAN
HARLAN, IOWA 51537
NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Harlan, Iowa.

The City's receipts totaled \$5,794,512 for the year ended June 30, 2007 an 8.5 percent decrease from 2006. The receipts included \$1,271,437 in property tax, \$746,189 from tax increment financing, \$2,209,375 from charges for services, \$575,102 from operating grants, contributions and restricted interest, \$202,595 from capital grants, contributions and restricted interest, \$59,423 from unrestricted investment earnings and \$730,391 from other general receipts.

Disbursements for the year totaled \$6,016,434, a .8 percent decrease from 2006, which included \$1,281,470 for public safety, \$800,153 for public works, and \$720,360 for culture and recreation. Also, disbursements for business type activities totaled \$629,132.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's website at [http:// auditor.iowa.gov / reports / reports.htm](http://auditor.iowa.gov/reports/reports.htm).

